

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 NEA-09 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-07 NSAE-00 RSC-01 XMB-02 OPIC-03

SP-02 CIEP-01 OMB-01 NSC-05 SS-15 STR-01 CEA-01

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R 120922Z JAN 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 1921

INFO AMEMBASSY BEIRUT

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY TEHRAN

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DEPT PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN KU

SUBJECT: KUWAIT BANK IN TROUBLE?

1. RUMORS EXIST THAT ONE OF KUWAIT'S COMMERCIAL BANKS IS IN FINANCIAL TROUBLE. IDENTITY OF BANK IS NOT KNOWN BUT RECENTLY PREPARED ANNUAL REPORTS INDICATE THAT KUWAIT'S LARGEST BANK, THE NATIONAL BANK OF KUWAIT AND TWO OTHER BANKS, AL-AHLI BANK AND KUWAIT REAL ESTATE BANK ARE HEALTHY.

2. ACCORDING TO RUMOR CAUSE OF BANK'S PROBLEM IS INABILITY EUROPEAN BORROWER(S) TO REPAY LOANS. INTERESTING TO NOTE LAST WEEK MINISTER OF FINANCE AND OIL ATEEQI MET WITH CHAIRMEN OF LOCAL COMMERCIAL BANKS TO DISCUSS WHAT PRESS CALLED "ALLEGED SOLVENCY PROBLEM IN THE COUNTRY." FOLLOWING THE MEETING, ATEEQI

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DENIED RUMORS THAT COUNTRY IS FACING SOLVENCY PROBLEM, BUT

ATEEQI ALLUDED TO MISMANAGEMENT OF FUNDS BY SOME PRIVATE FIRMS. ACCORDING TO GENERAL RUMORS AROUND TOWN SEVERAL BANKS HAD APPEALED TO GOK TO PROVIDE \$1 BILLION TO HELP THEM MEET URGENT LOAN OBLIGATIONS. PRESS REPORTS SUGGESTED THAT CENTRAL BANK AND GOK WERE PREPARED TO DISCUSS CASE OF EACH BANK INDIVIDUALLY.

3. WE UNDERSTAND KUWAIT CENTRAL BANK PUTTING FINISHING TOUCHES ON PLAN THAT WOULD ALLOW BANKS TO BORROW FROM CENTRAL BANK UNDER REDISCOUNT SYSTEM. CENTRAL BANK HOPES IN THIS MANNER TO STRENGTHEN LOCAL COMMERCIAL BANKS BUT REDISCOUNT PLAN WILL UNLIKELY BE IMPLEMENTED SOON ENOUGH TO HELP ANY BANK THAT IS IN TROUBLE NOW.

4. COMMENT: EMBASSY HAS NO REPEAT NO TANGIBLE EVIDENCE THAT ANY OF KUWAIT'S COMMERCIAL BANKS ARE IN SERIOUS TROUBLE BUT RUMORS AND ATEEQI STATEMENT REVEAL A CERTAIN NERVOUSNESS IN THE FINANCIAL COMMUNITY HERE. WHILE THE GOK WILL WANT TO EXERT INCREASING CONTROL OVER BANKS IN EFFORT TO MINIMIZE EFFECTS OF MISMANAGEMENT, WE WOULD BE VERY SURPRISED IF GOVERNMENT ALLOWED SITUATION TO REACH A POINT WHERE A KUWAITI BANK WOULD BE ALLOWED TO FAIL. WE THINK GOK WOULD CONSIDER FAILURE OF A BANK HERE SUCH A SERIOUS BLOT ON THE RECORD OF THE FINANCIAL COMMUNITY THAT IT COULD NOT BE ALLOWED TO HAPPEN.

STOLTZFUS

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